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C O N F I D E N T I A L MUSCAT 000147

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C O R R E C T E D C O P Y (ADDRESSEES)

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SUBJECT: OMAN CONTINUES BIG PORT PLANS

CLASSIFIED BY: Gary A. Grappo, Ambassador, Department of State, Embassy Musc
at; REASON: 1.4(B), (D)

1. (C) Summary: Said bin Hamdoon Al-Harthy, the Undersecretary for Ports and Maritime Affairs at the Ministry of Transport and Communication (MOTC), met with DCM, poloff and commercial officer on February 17 to discuss port development and access in Oman. According to al-Harthy, the Government is continuing the ambitious development of a major new port at Duqm despite its isolated location and uncertain economic conditions. Al-Harthy pledged to review issues related to USG port access for International Ship and Port Facility Security (ISPS) compliance visits and Port Integrated Vulnerability Assessments (PIVAs). While the government proceeds at full speed on Duqm, the future of Port Sultan Qaboos in Muscat, which has experienced tremendous growth in traffic, remains unclear. Sohar will not entertain military ship visits because of capacity constraints at this time. End Summary.

Duqm

2. (C) Al-Harthy spoke at length about Oman's plans for the port at Duqm, located roughly midway between Sur and Salalah. He stated that the government believes the new port occupies a very strategic location, not just for Oman but for the entire GCC. Although not a naval base, al-Harthy said that the Royal Navy Oman (RNO) would have significant dedicated space at Duqm and that it would be a primary port of call for naval vessels as it would have good facilities for both Omani and foreign ships. The Royal Oman Police Coast Guard (ROPCG) would also have a presence in Duqm.

3. (C) Al-Harthy elaborated that work is currently underway on two dry docks at Duqm, measuring 400m x 100m and 400m x 80m, which are scheduled to be completed in 2010 and will be the primary focus of the port. He confirmed that a South Korean company, Daewoo Shipbuilding and Marine Engineering, is constructing the dry docks and will also operate them (working for the 100% government owned firm, Oman Dry-Dock Company) when complete. He further outlined plans to create additional space and infrastructure at the port to accommodate any foreseeable expansion for the next "40 years," while keeping a 10 km non-developed "buffer zone" around the port to facilitate proper security. Duqm currently has a 4 km long breakwater that accommodates a 2.2 km berth and a 700 meter berth and has been dredged to accommodate a depth of 18-19 meters.

Al-Harthy noted that there are plans to add facilities for petrochemicals and for coal importation if requested by the government. [Note: The government is reportedly considering the construction of a coal-fired power plant at Duqm. End Note.] He predicted the port would be completed on schedule in 2012 and added that the government was in the process of requesting proposals from private businesses to operate the port, which are due at the end of March.

14. (C) Although his department is not responsible for development in Duqm outside the port, al-Harthy noted that there is an interagency working group on the Duqm region that meets weekly. He acknowledged that Duqm is at least a six hour drive from Muscat by car, or about 10 hours by truck. He accordingly confirmed that the

long-term plan is to put in a rail line from the northern port of Sohar, through Barka and Muscat, to Duqm. The initial phase of the planned railroad, however, would be between Sohar and Barka.

[Note: Oman's first railroad is under study by a Paris-based international consultancy; there have been no calls for tenders or firm commitment of financial resources at this time. End Note.] Al-Harthy said that the road infrastructure to Saudi Arabia and the UAE would have to be greatly improved to link Duqm to both countries, especially if it were to become a viable alternative to ports inside the Gulf for vessels carrying cargo into and out of GCC countries. He also commented that the Sultan personally wanted significant development in and around Duqm, in part because there is no other commercial or economic activity in that region of Oman. [Note: Oman's Minister of National Economy announced on February 19 that the government was proceeding at "full speed" on the development of Duqm and would expend up to \$1.8 billion for this purpose despite a slowing economy and a projected drop in oil revenue. End Note.]

Port Sultan Qaboos (PSQ)

15. (C) Al-Harthy stated that the government has not yet taken a decision about what to do with PSQ in Muscat. He shared that there was a group currently working on a study to determine the best use of that facility. He thought that it might be turned into a "city port" focused on tourism, and said that a new tourism/passenger terminal would open at the port on March 29. Confirming what we've heard from military sources, al-Harthy stated that the ROP Coast Guard presence in Muttrah next to PSQ will be moving to a new facility in nearby Sidab.

Barka, Sohar, Salalah

16. (C) Al-Harthy said he had heard speculation of port development at Barka, but that this was not true. The only thing that might happen in Barka, he added, is the creation of a dry dock facility. [Note: Barka is approximately one-third the distance between Muscat and the northern port of Sohar. End Note.] As for Salalah, he thought it would continue in its role as a major transshipment port as the government proceeded with the current plan to add berths 7-9. He confirmed what poloff has been told by port officials in Salalah -- that they intend to move the fishery port from its current location within the port of Salalah to a location much further away. Al-Harthy noted that as a matter of security policy, the government prefers to have fisheries far away from Oman's main ports.

17. (C) Al-Harthy confirmed that the Port of Sohar is still not complete. When asked if a lack of available power was slowing development in Sohar, he admitted that a dearth of natural gas to produce electricity was a problem, but commented that this issue was "a headache for someone else." He further replied that

"electric companies" have promised to provide power as needed, but do not want to overdevelop capacity. Al-Harthy expressed a strong preference for not having any navy vessels in Sohar for some time, as dredging and construction are still in progress and there is limited capacity.

Port Access

18. (C) Al-Harthy confessed to holding up post's port access requests for both ISPS and PIVA visits, claiming that he needed additional information to approve the requests. Poloff explained the purpose of each type of visit and agreed to send over more information to facilitate his understanding. [Note: These documents were sent to al-Harthy on February 18. End Note.] He appeared willing to consider the new information and find a way for the USG to conduct these required assessments. He also confirmed that the Office of Sea Affairs, in his department, was the designated authority for ISPS.

Piracy

19. (C) Asked about the MOTC's role in anti-piracy efforts, al-Harthy responded that the MOTC participated in government discussions on this subject, and had attended the recent IMO anti-piracy conference in Djibouti. He made clear, however, that the Ministry of Foreign Affairs (MFA) had the lead on this issue.

Industry Insights

110. (C) Some of the information provided by Al-Harthy was at odds with a December 17, 2008 conversation between poloff and Captain Talib al-Wahaibi, the Port Facility Security Officer at PSQ in Muscat. Al-Wahaibi thought the Duqm port project would be complete in 2017 or 2018, based on industry information and the contracting process with PSQ. He noted that, in general, ports in Oman sign 30-year contracts with the government, but when the contract for PSQ came due in 2006, the government signed only a 1 year extension, a practice it repeated in 2007. In 2008, however, the government signed a 10-year contract, which al-Wahaibi noted would correspond with a 2017-2018 completion date for Duqm. [Note: The large discrepancy in dates may point to a difference in their definition of "complete." End note.]

111. (C) Al-Wahaibi said that Port Qaboos has the official capacity to handle 6,000 containers at one time, yet there were currently 22,000 at the port. Because of congestion, trucks may wait up to 3-4 hours to go into the port to pick up a container; at times the port had to move 10 containers to access the one required. He explained that three years ago, in order to address the issue of overcrowding, the port company completed expansion plans to add significant space, going from 280,000 twenty foot equivalent Units (TEU) per year to 1 million TEU/year. Since then, according to al-Wahaibi, the port has completed all the necessary studies and has the funding to build. The government, however, has not approved the expansion and has not given an explanation for its decision.

112. (C) While he acknowledged that more business is generally good, al-Wahaibi said it was "bad news" if you are the person who has to "figure out where to put everything." He gave the example of the port having to back out of a contract with Singapore due to lack of

capacity to fulfill the terms of the agreement. When the port signed the contract, it had anticipated building for expansion, but without new space, it was "impossible" to honor its contractual commitments. Consistent with al-Harthy on this matter, al-Wahaibi opined that the government plans to turn Port Qaboos into a tourist port and move the port's import/export operations to Duqm when it is complete.

US Navy Ship Visits

¶13. (C) As a former ship captain and sailor, Captain al-Wahaibi clearly understood the financial benefit of having a U.S. naval ship dock at PSQ. However, he said, the port no longer has the space to grant access to U.S. military vessels. Al-Wahaibi explained that the only berth suitable for U.S. ships at PSQ is berth 3, which is "constantly occupied." In earlier times, the port had one cement clinker a month coming to that berth. Now, he said, it has five or more a month so that there is often one berthed and one anchored waiting to take its place.

¶14. (C) Martijn Vanderlinde, the CEO for the Port of Salalah Corporation, told poloff on January 31 that U.S. naval vessels are "always welcome" in Salalah, as long as there is space. He added, however, that these ships do not generate much revenue for the port, so the visits are not necessarily a high priority. He also noted Salalah's proximity to the piracy focus areas in the Gulf of Aden and remarked that having naval vessels in port frequently contributed to the port's goal of being perceived as a "safe port" within the industry.

¶15. (C) Comment: Given the government's vision and commitment concerning port development in Duqm, Post urges Washington to seriously consider seeking to add the new facility to the 2010 U.S.-Oman Base Access Agreement renewal agenda. While Al-Harthy

was confident that Duqm would possess a first-rate port, he appeared relieved that providing the surrounding infrastructure, including transportation links and power generation facilities, for Duqm and other Omani ports was not his responsibility. He also did not seem to have a firm grasp on how goods would move into and out of the Duqm area given its isolated location far from major population centers. Since al-Wahaibi outlined the situation at PSQ for us in December, all ports in Oman have seen a decrease in business due to the global financial crisis. According to contacts, business at the port of Salalah is down 21% over this time last year. Even with this decrease, however, congestion will likely continue to pose a problem for U.S. Navy ship visits. End Comment.
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